



PORTLAND MARKET REPORT

NABUCCO IS THE ONLY
PIPELINE THAT EUROPE
CAN FULLY CONTROL

April update

When James Bond scriptwriters get together to discuss the next Bond baddie, the starting points (one assumes) are what his (has there ever been a her?) dastardly motives are and how he is going to achieve them. Obviously world domination and nuclear Armageddon tend to be the go-to subjects, but when it comes to methods, control of pipelines features reasonably often (4 Bond films that we can think of). And why not? The concept of “pipeline wars” is certainly not new and the current machinations in Europe and Russia would make the basis for a pretty good movie...

With pipelines, it is normally gas transportation and not oil that tends to take on strategic importance. This is in part because of the (relative) ease with which oil can be transported; whereas oil can be taken out of the ground and sent to markets by truck, train, ship and pipeline, gas can only really be transported by pipeline (ship, truck and rail, all to varying degrees, being uneconomic). Plus of course, there is a more fundamental reason why gas is more important, in that however much we treasure oil derived mobility, it is gas-derived heat and electricity that more profoundly touches the basics of human need.

So where gas pipelines start, which countries they go through and where they end-up, are all of vital importance and Europe sits at the heart of a dizzying network of existing and proposed lines. First off we have the Nordstream pipeline; majority owned by the Russian state (Gazprom), supplying 100% of the gas into the Baltic States (Lithuania, Latvia and Estonia) and then continuing on into Northern Europe via the German Baltic coast. Then you have the Southstream line – again majority owned by Gazprom, but this time with a string of major EU partners coming along for the ride (EDF = France, ENI = Italy, Wintershall = Germany). As the name suggests, Southstream travels south via the Crimean Black Sea (erm... hold on... isn't that relevant at the moment?) into Bulgaria and then up through the Balkans to Austria and Germany. Moving westwards, we have the declining North Sea network (only

25% of British gas will come from the North Sea by 2020) operated by Norway, Britain, Netherlands and Denmark and then finally heading south, we have the North African – Mediterranean lines; Greenstream from Libya (into Europe via Italy), the Transmed line from Algeria/Tunisia (also into Italy) and the Mahgreb-Europe line (again from Algeria, but this time coming into Europe via Spain).

It's amazing to think of all of these gas lines criss-crossing into Europe and supplying our energy markets, but often from the most politically unstable places. To address this, the EU is trying to create a new line that will secure more reliable supplies, but in itself, the proposed project – the Nabucco (Trans-Caspian) line – has become a byword for political intrigue and diplomatic grand-standing. For critics, Nabucco is the kind of white elephant that sums up the EU (all the way down to its pretentious operating name) and certainly, a great deal is wrong with Nabucco. The costs are already projected to be double the original budget of \$6bn. The line incorporates far too many geographically diverse countries to function properly; Azerbaijan, Turkmenistan, Iraq, Egypt, Turkey to name but a few. But most critical of all is that it has lost the support of too many key players. On the operational side, both BP and RWE have walked away because of the high costs, but more damaging than this, is Germany's refusal to fully endorse the project. In effect, this is Germany's way of declaring that their energy future lies with Russia, which on the surface seems an economically suicidal position to take. But such controversial decision making is largely borne out of practicality, as Germany is already irrevocably reliant on Russian gas and this dependent status has been accentuated since Frau Merkel's post-Fukushima decision to dismantle her nuclear energy sector. Germany's stance also goes a long way in explaining their muted response to the recent events in Ukraine and sadly means that Europe will be lacking backbone for quite a while when it comes to standing up to Russian political and economic designs.

Despite all of the above however, Nabucco remains strategically crucial to Europe's future, as relying on energy from

Russia, the North Sea and North Africa is just not in any way, a prudent long-term plan. The pipelines that criss-cross Europe represent a long-term battle to dominate the European power market and it is one that the Europeans are losing. In fact, a grand pincer movement of Russian pipelines has now surrounded Europe in the form of Nordstream and Southstream. Both these lines were specifically designed to bypass the meddlesome Euro-Soviet states (Belorussia, Ukraine, Georgia), who are now steam-rollered by Russia because they no longer play any part in gas transit into Europe. And the domination looks set to continue. Just look at Gazprom's zealous courtship of Greece's bankrupt state gas utility (DEPA)! Indeed if people were more interested in energy, they would be asking questions as to why Gazprom is so interested in a loss making entity, other than to create another flanking pipeline – this time bringing into Europe the newly discovered gas reserves of the Eastern Med via a Russian owned pipeline.

So whilst Europe snoozes, the Russian Bear as ever, remains busy. But Nabucco still has the potential to change the course of recent history, as it is the only pipeline that Europe can fully control. Perhaps then, here is a cause that all Europeans can get behind, rather than endless debates over the constitution or whether convicted murderers should have iPads. When it comes to energy, the sum of the parts is definitely more than the individual elements and with Europe representing over 50% of Russia's gas revenues, it is not too late for Nabucco to ensure that Putin's Russia does not have it all its own way.



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